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FISCAL IMPACT REPORT

ORIGINAL DATE 02/06/06

SPONSOR Nava LAST UPDATED _____ HB _____

SHORT TITLE Increase Volunteer Firefighter Retirement SB 744

ANALYST Geisler

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		\$3,250.0	\$3,250.0	\$6,500.0	Recurring	VFF/Fire Protection Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Employees Retirement Association (PERA)

SUMMARY

Synopsis of Bill

Senate Bill 744 will enhance benefits under the Volunteer Firefighters Retirement Plan, which have remained fixed since the plan was first enacted in 1983. Currently, a member who has attained the age of 55 years and has accrued 25 or more years of service credit is eligible for a monthly retirement annuity of \$200. SB 744 would double the annuity payment to \$400 per month.

Currently, a member who has attained the age of 55 years and has accrued 10 or more years, but less than 25 years of service credit is eligible for a monthly retirement annuity of \$100. SB 744 would double the annuity to \$200 per month.

SB 744 would not affect age or service credit requirements.

FISCAL IMPLICATIONS

PERA notes that doubling the total amount of benefits payable under the plan would double the plan's liabilities. NMSA 1978, Section 10-11A-3(B) would need to be amended to increase the annual transfer from the fire protection fund to the Volunteer Firefighters Retirement Fund from the current \$750,000 to \$4,000,000 to keep the plan actuarially sound. Absent an increased transfer from the fire protection fund, the pension fund balance will decline. Increasing the fund

transfer from the fire protection fund to the volunteer firefighter retirement fund will reduce the reversion of unused fire protection funding to the general fund.

The Volunteer Firefighters Retirement Plan (“Plan”), passed by the Legislature in 1983, is unlike any other PERA coverage plan in that it is not funded based upon contributions from salary. Volunteer firefighters are not salaried employees and their “retirement benefits” do not derive from employment. Rather, the benefits are provided by the Legislature and funded by the Legislature from the Fire Protection Fund. The source of funding to meet the Fund’s statutory obligations is an annual appropriation of \$750,000 which is transferred to the Volunteer Firefighters Retirement Fund. In the past, this amount has been supplemented, as required, to meet unfunded obligations. However, due to the recent favorable experience of members retiring less frequently than anticipated, the Plan is currently 142% funded for the year ending June 30, 2005. Plan assets are approximately \$36 million. PERA estimates that approximately 300 members are currently receiving retirement benefits and between 400 to 500 members are eligible to retire.

SIGNIFICANT ISSUES

The main policy issue is whether retirement benefits payable to volunteer firefighters should be doubled, effective July 1, 2006.

In addition, PERA notes that increasing retirement benefits without any corresponding increase in funding to the Volunteer Firefighters Retirement Fund is contrary to Article XX, Section 22(C) of the New Mexico Constitution which states in relevant part, “The legislature shall not enact any law that increases the benefits paid by the system in any manner or changes the funding formula for a retirement plan unless adequate funding is provided.”

PERA also notes that SB 744 proposes a benefit enhancement that is in conflict with HJM 5, passed in 2005, which imposes a 2-year moratorium on benefit enhancement legislation to the public employees retirement system and the educational retirement system through December 31, 2006. The PERA Board has adopted a position not to endorse any benefit enhancement legislation until sufficient experience is gained to determine the actuarial impact of benefit enhancements passed during recent legislative sessions.

CONFLICT

As noted above, SB 744 may conflict with the mandate of Article XX, Section 22(C) of the New Mexico Constitution that the legislature not enact any law that increases the benefits paid by the retirement system in any manner unless adequate funding is provided. SB 744 also appears to propose a benefit enhancement that is in conflict with HJM 5.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Volunteer firefighter pension benefits will remain at current levels.

GG/yr